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SUBJECT: WORLD BANK: BELARUS ECONOMY NOT IN DANGER -- YET

Classified By: Ambassador Karen Stewart for reason 1.4 (d).

Summary

¶1. (SBU) In a World Bank Country Assistance Team meeting with the diplomatic corps, World Bank Country Director Paul Bermingham stated that the macroeconomic situation in Belarus is "serious, but not life-threatening", that economic growth is real, but foreign reserve levels are not ideal. Bermingham stated that clearly certain constituents within the government understand the need for reform, but are hindered by authorities above. End summary.

Macroeconomic Situation Serious, But Not Life-Threatening

¶2. (SBU) Ambassador and Poloff attended a World Bank Country Assistance Team Meeting on September 11, conducted by World Bank Country Director Paul Bermingham before the release of the Bank's Country Assistance Strategy (CAS) for Belarus for the period FY08-FY11. Summing up the situation, Bermingham stated that the general economic situation in Belarus has deteriorated due to the increased energy prices and lack of significant reform, but that the situation is far from reaching a critical point for the regime.

¶3. (SBU) One weakness he cited was foreign reserves, which are only at about one month of total imports instead of the ideal three. This problem is mitigated, however, by the large inventory of state-owned enterprises the president could sell to increase liquidity. Belarus has made, in his opinion, remarkable achievements in the area of energy conservation; an important step considering increased energy costs. The World Bank's evaluation is that energy subsidies from Russia accounted for about 10 percent of Belarus' GDP.

State-Owned Companies Attractive to Investors?

¶4. (C) German DCM Fried Nielsen commented optimistically about the possibilities for foreign investment, stating that he had already received calls from German businesses expressing interest in investing in Belarus' telecom sector. Bermingham, however, was less enthusiastic, stating that although many assets could attract significant attention, too many uncertainties exist to make them truly attractive. (Comment: U.S. investors are generally scared off by the lack of rule of law, as well as the negative political scene. End comment.)

GOB Requests Additional Scrutiny

¶5. (SBU) Encouragingly, constituencies within the GOB demonstrate concern and the willingness to act within their bounds. Bermingham pointed out the GOB's desire for

additional World Bank guidance by requesting Public Sector Financial Accountability and Financial Sector Assessments. These voluntary reports assess the overall quality of a country's public financial management system and seek to identify vulnerabilities in a country's financial system.

Comment: Still Likely to Ignore Advice

¶ 6. (C) Although certain segments of the regime understand the need for reform, as evidenced by the GOB request for additional guidance from the World Bank, the highest authorities will continue to reject most advice. The government ignored international agencies, including the World Bank, for the past decade when advised of the need for reform, but the economy has yet to sink. Although immediate reform would give Belarus a better chance at sustainable economic growth, the GOB apparently still plans to use profitable businesses to subsidize loss-making enterprises and to seek loans to cover shortfalls.

Stewart